

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**TIME-AND-MATERIALS CONTRACTS AT THE
DEFENSE INFORMATION SYSTEMS AGENCY**

Report No. 96-032

December 1, 1995

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Department of Defense

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Acronyms

BOA	Basic Ordering Agreement
CIM/SETA	Center for Information Management, Systems Engineering and Technical Assistance
DCMC	Defense Contract Management Command
DCAA	Defense Contract Audit Agency
DISA	Defense Information Systems Agency
DITCO	Defense Information Technology Contracting Office
FAR	Federal Acquisition Regulation
ID/IQ	Indefinite Delivery/Indefinite Quantity
T&M	Time-and-Materials



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DEPARTMENT OF DEFENSE
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December 1, 1995

**MEMORANDUM FOR DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY**

**SUBJECT: Audit Report on Time-and-Materials Contracts at the Defense Information
Systems Agency (Report No. 96-032)**

We are providing this final audit report for review and comment.

A draft of this report was provided to the Defense Information Systems Agency, but no written management comments were received. During our meeting on September 1, 1995 to discuss the draft report, you outlined a number of commendable actions taken or planned to improve contracting operations. Nevertheless, a detailed reply addressing the audit findings, recommendations and conclusions on material management control weaknesses is required by DoD Directive 7650.3. We request that you provide those comments to the final report by January 16, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Terry L. McKinney, Audit Program Director, at (703) 604-9288 (DSN 664-9288) or Mr. Bruce A. Burton, Audit Project Manager, at (703) 604-9282 (DSN 664-9282). See Appendix I for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 96-032
(Project No. 5CF-0007)

December 1, 1995

Time-and-Materials Contracts at the Defense Information Systems Agency

Executive Summary

Introduction. The Defense Information Systems Agency (DISA) is responsible for planning, engineering, developing, testing, acquiring, implementing, operating, and maintaining information systems for both command, control, communications, and intelligence and for mission support. To accomplish its mission, DISA uses various types of contracts, including time-and-materials contracts. Since DISA began using time-and-materials contracts in 1991, DISA has awarded 18 contracts with time-and-materials provisions with an estimated total value of \$1.18 billion, approximately 45 percent of the estimated value of all DISA contract awards.

Audit Objectives. The audit objective was to determine whether contracts containing time-and-materials pricing actions were properly awarded and administered. We also examined the management control program as it applied to the award and administration of those contracts.

Audit Results. Contracts containing time-and-materials pricing actions were not properly awarded or administered. Management controls were not in place to ensure adequate management and oversight of those contracts. Although time-and-materials contracts are the least preferred type of cost-reimbursement contract, DISA used them routinely.

- o The DISA acquisition planning and award procedures for time-and-materials contracts were hastily performed and were not consistent with the Federal Acquisition Regulation. As a result, time-and-materials contracts were inappropriately awarded, competition was restricted among Small Business Administration Section 8(a) Program firms, statements of work were broad and vague and included inherently governmental functions, and acquisition packages were incomplete or inaccurate (Finding A).

- o DISA administration of time-and-materials contracts was not in the Government's best interest. Contracting officers did not perform routine contract administration functions and did not provide close surveillance on time-and-materials contracts. As a result, the Government's interests were not safeguarded and excess costs were incurred (Finding B).

- o DISA improperly used the Center for Information Management, Systems Engineering and Technical Assistance multiple source procurement award, valued at \$200 million. As a result, orders were issued at excessive prices, contractors realized windfall profits, and competition was circumvented (Finding C).

The DISA management control program needs improvement, both in terms of achieving better compliance with prescribed contracting practices and detecting control risks and weaknesses through candid self-assessment. The material weaknesses identified during the audit may have been detected had DISA performed management control reviews of contract management. See Findings A and B and Appendix A for details.

Recommendations in this report, if implemented, will reduce Government contracting costs by increasing competition, by restricting the use of time-and-materials contracts to only those instances where no other contract type can be used, and by improving contract management. Appendix G summarizes the potential benefits of the audit.

Summary of Recommendations. We recommend that the Director, DISA, compete contracts among Section 8(a) firms, restrict the use of time-and-materials contracts in accordance with the intent of the Federal Acquisition Regulation, develop guidance for awarding Section 8(a) contracts, establish acquisition milestones, and prohibit DISA officials from interfering with contracting officers in the performance of their acquisition planning and award duties. In addition, we recommend that DISA request formal audits from the Defense Contract Audit Agency when necessary to establish fairness and reasonableness of price, and only place delivery orders against basic ordering agreements containing time-and-materials orders in those cases where competition has not been restricted. We also recommend that DISA delegate contract administration functions to the Defense Contract Management Command, evaluate performance of procurement and contracting officials, and take appropriate action against officials involved in improper contracting actions. We recommend DISA initiate action to replace the Center of Information Management, Systems Engineering and Technical Assistance, multiple source procurement award. In addition, we recommend that DISA establish realistic requirements for each delivery order using best value pricing and compete orders on future multiple source procurements.

Management Comments. We issued a draft of this report to management on August 23, 1995. No written management comments were received. We request that Director, DISA, provide comments on the final report by January 16, 1996.

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Part I - Audit Results

Audit Background

Defense Information Systems Agency. The Defense Information Systems Agency (DISA) is responsible for planning, engineering, developing, testing, acquiring, implementing, operating, and maintaining information systems for both command, control, communications, and intelligence and for mission support under all conditions of peace and war. In conjunction with these responsibilities, the DISA contracting office serves DISA, other DoD components, and other Federal agencies.

Defense Information Technology Contracting Office (DITCO) is a contracting arm of DISA at Scott Air Force Base, Illinois. DITCO provides procurement support to DoD and non-DoD agencies for information technology requirements, both automated data processing and telecommunications. It operates on a fee-for-service basis, providing cradle-to-grave contracting, including the bill paying function. Contracts are also awarded by a contracting operation at Fort Ritchie, Maryland, and contracts at that office are under the direct control of DISA headquarters.

Contract Selection. Selection of an appropriate contract type depends on numerous factors, including how well the Government can define the work to be performed when it solicits bids or proposals. The Federal Acquisition Regulation (FAR) 16, "Types of Contracts," states that when selecting the contract type, the objective is to provide for reasonable contractor risk and maximum contractor incentive to efficiently and economically perform.

When cost uncertainties are too great, the FAR provides for a variety of cost-reimbursement-type contracts, such as cost-plus-fixed-fee and cost-plus-award-fee contracts. However, the FAR states that the least preferred type of cost-reimbursement contract is a time-and-materials (T&M) contract. Nevertheless, during 1991, DISA began using T&M type contracts as a normal course of business and currently has 18 T&M contracts, valued at \$1.18 billion. Estimated values for all contracts in 1992, 1993, and 1994 totaled \$2.6 billion.

T&M Contracts. T&M contracts provide for the acquisition of supplies and services based on reimbursing the contractor for the labor hours at a specified fixed hourly rate. The contractor is allowed to acquire materials to complete contracted tasks at cost including applicable overhead. FAR 45, "Government Property," defines materials as items that may be incorporated into or attached to a deliverable end-item or that may be consumed or expended while performing a contract. Such items include assemblies, components, parts, raw and processed materials, and small tools and supplies.

Audit Objectives

The primary audit objective was to determine whether contracts containing T&M pricing actions were properly awarded and administered. The audit also examined the management control program as it applied to the award and administration of T&M contracts. See Findings A and B for discussion of the material management control weaknesses that we identified and Appendix A for the audit scope and methodology and review of the management control program. Appendix B provides a summary of prior coverage related to the audit objectives.

Finding A. Contract Award Process

DISA performed acquisition planning and award procedures for T&M contracts hastily and inconsistently with the FAR. Acquisition planning was hasty and inconsistent with the FAR because DISA wanted contracts awarded expeditiously. Acquisition personnel did not perform normal planning for the acquisitions because the Small Business Administration Section 8(a) Program enabled acquisition personnel to bypass the competitive process and to award contracts quickly. In addition, contracting officers were pressured from higher levels to award contracts quickly, and were not allowed enough time to adequately develop acquisition packages. As a result:

- o contracting officers awarded T&M contracts when other contract types more favorable to the Government should have been awarded;

- o DISA restricted competition, which prohibited qualified Small Business Administration Section 8(a) firms from competing and, therefore, deprived the Government of more favorable pricing associated with competition;

- o statements of work were broad and vague and often included inherently governmental functions;

- o acquisition packages, which included cost or pricing data, price negotiation memorandums, audit support, and fairness and reasonableness decisions, were incomplete or inaccurate; and

- o awards were split or the guaranteed contract values were set below the FAR's competition threshold to allow for sole-source procurements.

Acquisition Planning Procedures

Acquisition Planning Philosophy. DISA hastily performed acquisition planning that resulted in the awarding of contracts on a T&M basis that should have been awarded as fixed price or other type contracts. DISA followed an acquisition planning philosophy to ensure rapid awards of contracts. Under the philosophy, DISA restricted competition by consistently awarding sole-source contracts to Section 8(a) firms without considering other qualified Section 8(a) firms and deprived the Government the cost savings associated with competition. In some cases, the minimum guaranteed contract value was purposely set below the competitive threshold to allow for sole-source awards.

Finding A. Contract Award Process

In one case, the contracting officer justified the need for a sole-source procurement with the following statement:

Due to poor planning, DISA found itself in a predicament: It appeared that the only way to award a contract for the follow-on effort by the end of the FY was to have an informal competition--but regulations require a formal competition for awards over \$3 million. For this reason DISA decided to award an indefinite quantity indefinite delivery (ID/IQ) contract for three years, and only guarantee \$2.9 million of the total estimated cost of over \$30 million (for three years). This allowed us to have an informal competition, but with the result that we had to make the evaluation without having any cost or pricing data, or any of the other information that comes with more formal competition.

Because Section 8(a) sole-source awards provided the luxury of short timeframes for processing, DISA acquisition personnel were often unconcerned about normal planning because the personnel believed that the Section 8(a) mechanism would enable them to award contracts quickly, and the mechanism was usually stated as the preferred option when considering award strategies. DISA personnel manipulated the acquisition process, enabling DISA to quickly award very broad scope and open-ended contracts to selected sources. Quite often, the statements of work included inherently governmental functions that should not have been contracted out. Personnel stated that such award procedures were necessary because of perceived pressure from higher-level officials and because of inadequate planning. As a result:

- o cost or pricing data were incomplete,
- o price negotiation memorandums were inadequate,
- o audit support was lacking, and
- o fairness and reasonableness determinations were not supported.

DISA should compete contracts among Small Business Administration Section 8(a) firms to the fullest extent possible.

Contract Type. T&M contracts provide for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit. Also included are materials at cost, including material handling costs. T&M contracting is the least desired contract type in Government contracting because it places the risk completely on the Government to control costs.

FAR 16.601(b), "Time and Materials Contracts'," states:

A time and materials contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of work or to anticipate costs with any reasonable degree of confidence.

Finding A. Contract Award Process

Before 1991, DISA awarded no indefinite delivery/indefinite quantity (ID/IQ) contracts with T&M delivery orders. Contracts were awarded cost-plus-fixed-fee or firm-fixed-price. At the time of this audit, DISA had 18 ID/IQ T&M type contracts. DISA officials did not evaluate whether other contract types could have better served the Government interests before selecting T&M type contracts.

FAR 15.805-3, "Cost Analysis," provides techniques available to contracting officers for performing cost analyses. One of the stated techniques is to compare costs that the offerer proposed for individual cost elements with previous cost elements from the offerer or from other offerers for the same or similar items.

DISA acquisition personnel did not use historical data as a basis to estimate costs for follow-on contracts. Instead, DISA routinely awarded contracts on a T&M basis to replace expiring contracts without evaluating cost history. Contracts that had been awarded on a cost-plus-fixed-fee or T&M basis were replaced by follow-on contracts awarded on a T&M basis.

Table 1 identifies follow-on contracts that were awarded as T&M when another type contract could have been awarded.

Table 1. Contracts Unnecessarily Awarded as T&M	
Prior Contracts	Follow-On Contracts
Cost-Plus-Fixed-Fee DCA100-92-C-0023 (SETA Corporation) DCA100-92-C-0044 (Universal Systems, Inc.)	ID/IQ Time and Materials DCA100-93-D-0001 (Advance, Inc.) DCA100-93-D-0001 (Advance, Inc.)
ID/IQ Time and Materials DCA100-93-D-0005 (TRESP Associates, Inc.) DCA100-92-C-0136 (User Technology Associates, Inc.)	ID/IQ Time and Materials DCA100-94-D-0078 (International Development and Resources, Inc.) DCA100-94-D-0064 (Modern Technology Systems, Inc.)

DISA had no justification for awarding a T&M follow-on contract to an expiring contract that had been awarded on a cost-plus-fixed-fee basis. Even when the prior contract was awarded on a T&M basis, the acquisition personnel should have used the historical data available to award another type of contract. Contracting officers routinely used the same pro forma justification in the "Determination and Findings" for using T&M contracts. The determination and findings stated that T&M was the most cost-effective basis, even though DISA had no support for that statement.

DISA contracting personnel stated, and we agree, that several of the T&M contracts should have been awarded cost-plus-fixed-fee or fixed price. Furthermore, DISA acquisition plans for T&M contracts described the contracts as fixed-price, ID/IQ delivery order type contracts. The Small Business Administration also described the contracts as being accepted in the Section

Finding A. Contract Award Process

8(a) program as fixed-price, ID/IQ delivery order type contracts. However, the contracts were awarded as ID/IQ, T&M type contracts. In our opinion, the change in contract type was based on a changed acquisition planning philosophy imposed on the contracting officers for the sake of expediency rather than a cost-effective approach.

Contract acquisition personnel at DITCO awarded two noncompetitive Section 8(a) basic ordering agreements (BOAs) that contained T&M delivery orders, which were BOA DCA200-91-G-0001 with SETA Corporation and BOA DCA200-94-G-0003 with Modern Technologies Corporation. DITCO contracting personnel administering these BOAs stated that T&M orders should only have been used, at the most, for the first option period. After that, the Government should have used the historical data available from the base year and first option period to develop an accurate statement of work and cost estimate. The remaining work should have been performed on a firm-fixed-price basis. However, work is still being performed on a T&M basis.

Sole Source - Restrictive Competition. Public Law 100-656, "The Business Opportunity Development Reform Act of 1988," requires that an acquisition offered under the Section 8(a) Program to the Small Business Administration shall be awarded on the basis of competition if the anticipated award price of the contract (including options) exceeds \$3 million (for service contracts), and if a reasonable expectation exists that at least two Section 8(a) firms will submit offers at a fair market price. FAR 19.805, "Competitive 8(a)," implements Public Law 100-656. Neither Public Law 100-656 nor the FAR excludes ID/IQ contracts from the \$3 million threshold. Competition of orders below the competitive threshold is possible with Small Business Administration approval.

Public Law 98-369, "The Competition in Contracting Act of 1984," generally provides that full and open competition should be used when soliciting offers and awarding Government contracts. Contracting through the Section 8(a) Program is one of the statutory exceptions to the rule requiring full and open competition of procurements.

DITCO contracting officials circumvented competition when awarding a T&M contract to Howard University. Although the FAR requires that a reasonable expectation exists that offers will be submitted by at least two responsible historically black colleges and universities to set aside the acquisition, DITCO advertised the award as a sole-source contract to Howard University and hastily awarded a letter contract within 9 days after the award. The contract was also awarded at a not-to-exceed value of \$2.4 million, based on the independent Government cost estimate. However, the not-to-exceed value was raised to agree with the contractor's proposal, even though DITCO did not have an independent analysis to support a higher Government cost estimate and a Government audit did not support most of the proposed costs.

In instances when T&M contracts are necessary, DISA should adequately justify and support the decision to use T&M contracts.

Finding A. Contract Award Process

Noncompetitive Awards for Which Contract Values Exceeded the \$3 Million Threshold. DISA did not use competitive procedures when awarding four contracts whose actual values were above the \$3 million threshold requiring full and open competition. Documentation obtained from the contract files clearly showed that the DISA contracting officer estimated the total contract price for contract DCA100-93-D-0001 awarded to Advance, Incorporated, at more than \$30 million. However, DISA contracting personnel intentionally established the guaranteed minimum value at only \$2.8 million, to avoid the procedures requiring competition. Expenditures against the contract reached the minimum value 2 months after the contract was awarded. DISA contracting personnel also stated that they were developing a \$75 million contract to replace the Advance, Incorporated, contract in which the minimum value will be set at \$2.5 million.

In addition, DISA awarded two sole-source Section 8(a) T&M contracts to TRESP Associates, Incorporated, and User Technology Associates, Incorporated, for similar requirements. The TRESP Associates, Incorporated, contract value was \$2.7 million and the User Technology Associates, Incorporated, contract value was \$1.8 million. Each contract was under the competitive threshold; however, the total value of the contracts amounted to \$4.5 million. When questioned why two contracts had been awarded to fulfill the same requirements, the contracting officer admitted that the requirement was split to keep each contract below the thresholds for competition and for delegation of procurement authority.

The Small Business Administration established guidance for ID/IQ contracts under 13 Code of the Federal Regulations 124.311(a)(2), which requires the use of the guaranteed minimum value of such contracts, exclusive of options, to determine whether a contract meets the threshold for competition. FAR 16.504, (a) (2) "Indefinite-quantity contracts," states:

To ensure that the contract is binding, the minimum quantity must be more than a nominal quantity, but it should not exceed the amount that the Government is fairly certain to order.

DISA purposely established minimum guaranteed amounts under \$3 million to avoid having to compete contracts. The minimum guaranteed values did not represent a realistic projection of the minimum anticipated contract amounts. The maximum contract value of the 18 contracts totaled \$1.2 billion, while the minimum contract values totaled \$22 million, only 2 percent of the maximum contract amount. See Appendix D for a summary of the contracts reviewed.

Delivery Orders Issued Against BOAs. DITCO circumvented competition through the use of the Section 8(a) Program. DITCO awarded BOA DCA200-94-G-0003 to Modern Technologies Corporation, a Section 8(a) firm, on December 30, 1993. Contracting officers issued six T&M delivery orders during the first 6 months of the BOA. However, contracting officers issued 20 additional delivery orders within a 2-week period before Modern Technologies Corporation graduated from the Section 8(a) Program on August 26, 1994. Of the 20 delivery orders, 14 were issued the day before Modern Technologies Corporation graduated from the Section 8(a) Program. Each of the 14 delivery orders issued the day before Modern Technologies

Finding A. Contract Award Process

Corporation graduated from the Section 8(a) Program were ID/IQ-type orders for 1 base year and 4 option years. Contracting officers also exercised options after the contractor graduated from Section 8(a) status when other competent Section 8(a) firms were available. We feel that the intent of the Section 8(a) Program is not to circumvent competition, but circumventing competition is exactly what was done by issuing ID/IQ-type orders. In addition, issuing 20 of 26 delivery orders immediately before Modern Technologies Corporation's graduation further indicates that circumventing competition was the goal.

The following chart depicting the timing of delivery orders issued against BOA DCA200-94-G-0003 illustrates the restricting of competition.

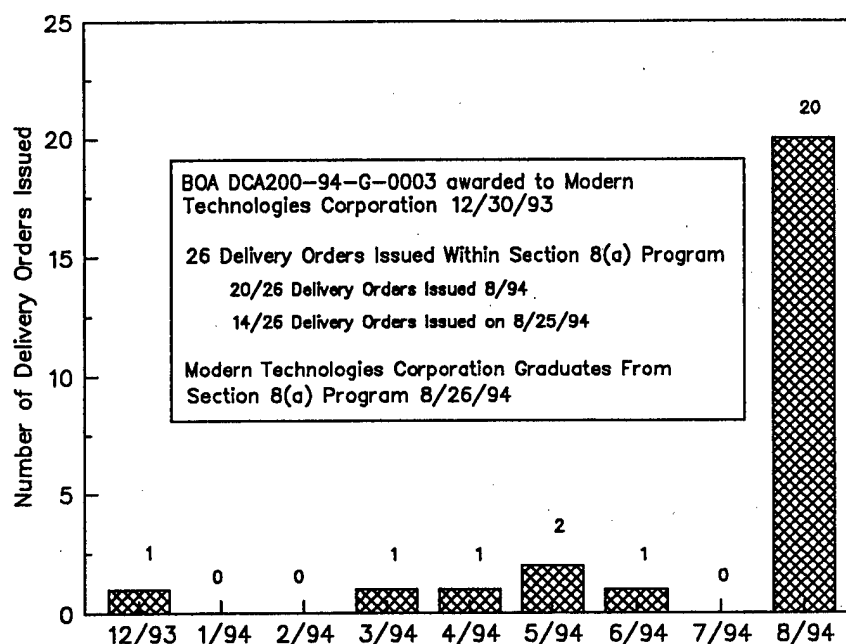


Figure 1. Restricted Competition in BOA DCA200-94-G-0003

DISA should evaluate the placement of delivery orders against BOAs and issue delivery orders only where competition has not been restricted.

Split Awards. DISA may have intentionally split an award to avoid the \$3 million threshold for competition. DISA awarded contract DCA100-94-D-0078 to International Development and Resources, Incorporated, on June 1, 1994, for \$990,000. This ID/IQ contract was to provide program management and training support services for the Center for Integration and Interoperability. On September 1, 1994, just 3 months after contract award, DISA awarded BOA DCA600-94-G-0001 to the contractor to provide the same services as provided in contract DCA100-94-D-0078. The estimated first year cost of the BOA was \$2.9 million. On the same day that the BOA was awarded, DISA also doubled the maximum value of contract DCA100-94-D-

Finding A. Contract Award Process

0078, increasing it from the initial award amount of \$990,000 to \$1.98 million. In just 3 months, through the BOA, DISA had made noncompetitive awards to International Development and Resources, Incorporated, for the same services, amounting to \$4.9 million, with the potential to increase the awards further. DISA acquisition personnel stated that additional requirements developed after the initial contract award were the reason for issuing the BOA and doubling the maximum contract value of the initial contract award. However, additional requirements never materialized, indicating either poor planning by DISA acquisition personnel, or intentional splitting of the awards to avoid the \$3 million threshold and the need for competition.

DISA should develop criteria to establish realistic values in determining whether a contract meets the threshold for competition.

Statements of Work. DISA awarded T&M contracts that contained broad and general statements of work and in some cases contracted for inherently governmental functions.

DISA legal counsel questioned the broad statement of work in the Advance, Incorporated, contract. Specifically, he questioned how a proposal could be assembled in light of the open-endedness of the proposed contract. DISA legal counsel also questioned whether a Section 8(a) contractor could fully satisfy the support requirements or whether the contractor would be stretched too thin. He stated:

The proposed contract is designed to satisfy DSSO's [Defense Systems Support Organization] full support mission including support to CIM [Center for Information Management]. Support to CIM may develop into an area as wide as DoD if CIM reaches its fullest potential.

He also stated that:

An overly broad or ambitious contract will run into questions of scope, contract administration, avoidance of competition (and worse yet, institutionalized non-competition).

DITCO contracting personnel stated that the statement of work for contract DCA200-94-G-0003 awarded to Modern Technologies Corporation was very vague and undefined. In addition, they stated that a third party reader would question whether the Government really knew what it wanted, and if so, why a more definitive statement of work was not prepared. DITCO contracting personnel also provided 12 examples of occasions when they suspected that Modern Technologies Corporation had assisted in the preparation of or actually prepared the statement of work.

Several of the statements of work contained requirements that were inherently governmental functions. Contract administration functions were performed under contract DCA100-94-D-0064 awarded to Modern Technology Systems, Incorporated, which put the Government at risk. The contractor assisted the contracting officer representative in developing requirements packages for new and existing contracts. The same contracting officer representative was also

Finding A. Contract Award Process

assigned as contracting officer representative for the above contract. The contract also performed work which included processing incoming invoices and preparing reports related to that report on the progress of the Defense Enterprise Integration Service multiple source procurement contracts.

Contract administration functions were also performed under DCA100-93-D-0005 awarded to TRESP Associates, Incorporated. Justifications consistently identified a lack of in-house staff or expertise for the need to contract out. However, the functions were part of the normal contracting duties and were not overly complex.

DISA should require that appropriately issued T&M contracts do not contain overly broad or vague statements of work and do not contain inherently governmental functions in the statements of work.

Contract Award Procedures

Contracting officers' performance of routine acquisition procedures was restricted because of compressed timeframes for awarding new and follow-on contracts or because of actual or perceived pressure from higher level officials to award contracts quickly. Acquisition packages lacked adequate cost or pricing data, fairness and reasonableness determinations including price negotiation memorandums, and audit support. For example, documentation obtained during the audit showed that the then-Director of DISA, in a memorandum dated August 13, 1993, to the acting procurement deputy, exerted extreme pressure to award contract DCA100-93-D-0138 by stating: "I want this effort on contract (Ltr) [Letter] ASAP [as soon as possible] but NLT [no later than] 30 Aug."

DISA contracting personnel were also under pressure to award contract DCA100-94-D-0064. In a memorandum dated January 19, 1994, the Director, Office of Technical Integration Systems, stated that award was to be achieved by February 1994. The memorandum was approved by the Deputy Director of DISA.

Figure 2 provides an example of the timeframes in which contracts were awarded. In this example, it took one week from the request for proposal to the contractor's signature on the contract.

Finding A. Contract Award Process

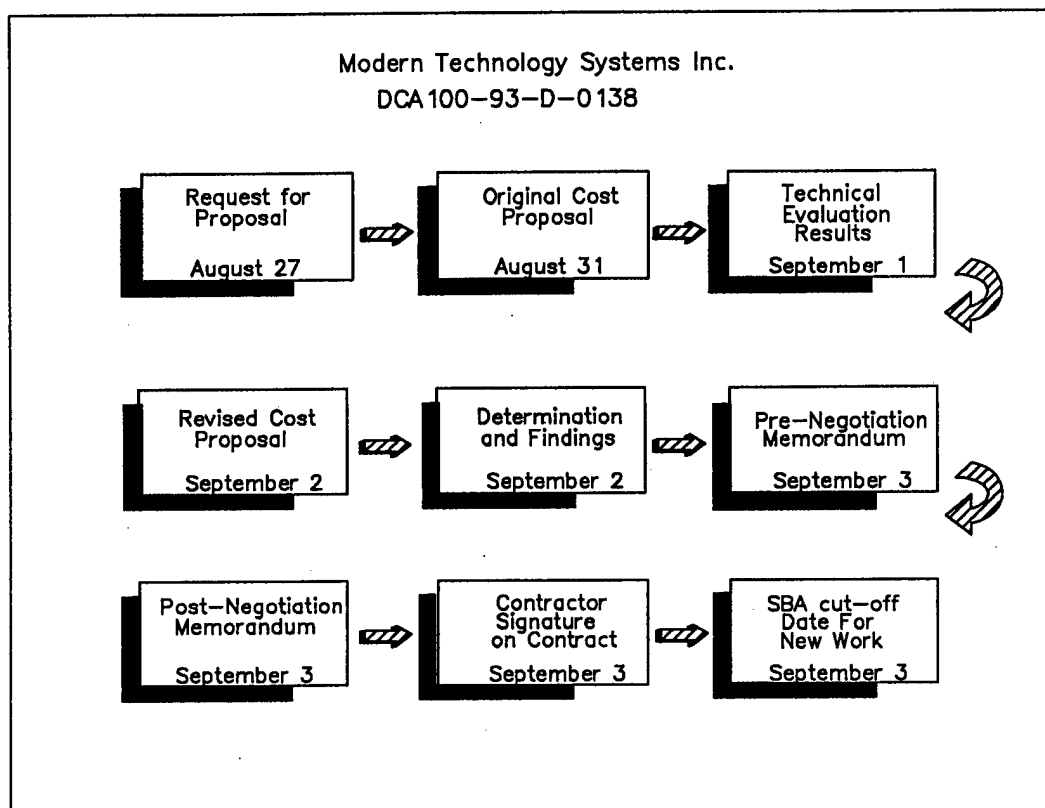


Figure 2. Sample of a Compressed Timeframe to Award a Contract in 1993

DISA contracting personnel at Fort Ritchie also stated that they experienced undue influence or pressure from command channels for work performed under BOA DCA600-94-G-0003 with MELA Associates, Incorporated. In addition, Fort Ritchie contracting personnel stated that some customers (other DISA directorates) told them that they were instructed by their managers to use the MELA Associates, Incorporated, BOA.

DISA should prohibit its management from interfering with or applying pressure to the acquisition and award duties of contracting officers.

Cost or Pricing Data. FAR 15.804, "Cost or Pricing Data," requires that certified cost or pricing data be obtained before accomplishing the award of any negotiated contract expected to exceed \$500,000.

Obtaining Cost or Pricing Data. None of the eight noncompetitive, sole-source T&M contracts reviewed during the audit had adequate cost or pricing data. The DISA acquisition planning philosophy of awarding contracts quickly contributed to the inadequacy of cost or pricing data. Cost or pricing data were often unsupported or did not provide a basis to determine the reasonableness of proposed costs. Proposed labor categories were not consistent with actual cost categories, costs were based on prior actual data rather than projections that considered anticipated business volume, offsite rates were not

proposed, and documentation was lacking. For example, cost or pricing data were inadequate for contract DCA200-92-D-0055 awarded to Howard University. A Health and Human Services audit of Howard University's proposed prices revealed that pricing data were unacceptable as a basis for negotiation. The Health and Human Services determined that 96.5 percent of the proposed costs were unresolved because of lack of supporting documentation.

Certification of Cost or Pricing Data. Cost or pricing data were inadequate for two DITCO-awarded BOAs. Contracting officers obtained cost or pricing data for the SETA Corporation and Modern Technologies Corporation BOAs when they were established. However, they did not obtain certified cost or pricing data when prices were agreed upon and delivery orders were issued. As a result, the Government was not in a position to benefit from any new cost information available to the contractor that would have justified a reduction in price.

DISA should establish milestones that allow acquisition personnel sufficient time to develop adequate acquisition packages based on relevant cost or pricing data.

Price Negotiation Memorandum. FAR 15.808, "Price Negotiation Memorandum," states, "at the conclusion of each negotiation of an initial or revised price, the contracting officer shall promptly prepare a memorandum of the principal elements of the price negotiation." The price negotiation memorandum should explain the disposition of significant differences or unknown information to allow a prudent third party to understand how costs were resolved or accepted.

Nine price negotiation memorandums prepared by DISA contracting personnel were inadequate or incomplete. The memorandums did not explain the contracting officer's basis for accepting costs that were not adequately supported or justified by the contractor. The audit showed that price negotiation memorandums did not comment on work that was to be performed offsite, despite the fact that an offsite overhead rate was not established, but an on-site overhead rate was proposed. The price negotiation memorandums also did not comment on how the contracting officer accepted proposed rates with no historical data supporting them, or proposed costs in which the Defense Contract Audit Agency (DCAA) could offer no support or basis. One price negotiation memorandum did not explain how material and equipment would be procured even though \$13 million of equipment (37 percent of the total estimated contract cost) was projected to be procured under the contract.

For example, contract DCA100-93-D-0001 was awarded to Advance, Incorporated, to expand, maintain, and operate the DISA Information Systems network and the Center for Information Management network. Equipment costing \$13 million was purchased from the contract. However, neither the pre-negotiation memorandum or the post-negotiation memorandum addressed the procurement of equipment. Decisions related to purchasing this equipment appear to have been made by the Section 8(a) contractor.

Finding A. Contract Award Process

Audit Support. The DISA use of audit support was limited. DISA acquisition personnel did not request audits from DCAA on a regular basis and only requested partial audit information over the telephone or did not make DCAA aware of all of the conditions of the proposed procurement. The DCAA written confirmation of telephone requests often cautioned on using the information when conditions change or differ from those conditions under which the information was provided. In addition, DISA used old audit reports without determining whether information would apply to current circumstances. Auditors were not invited to any of the negotiation sessions. When specific information is not available, DISA should request formal audits from DCAA to clearly establish fairness and price reasonableness.

Fairness and Reasonableness. DISA acquisition personnel did not establish fairness and reasonableness for new and follow-on T&M contracts. Inadequate cost or pricing data received from the contractors, lack of adequate audit support, and inadequate or incomplete price negotiation memorandums contributed to the failure of DISA to establish the fairness and reasonableness of the contracts. As a result, DISA was not assured of getting the best price from contractors for performance of the contracts.

Conclusion

The DISA inappropriately relied on T&M contracts when other contract types more beneficial to the Government should have been awarded. T&M contracts should be used only when no other contract type can be used. Acquisition personnel purposely split awards or set the guaranteed contract value below the minimum threshold to allow for sole-source procurements. DISA should seek full and open competition whenever possible. Contractor cost or pricing data were inadequate, as were DISA contracting officers' determinations of fairness and reasonableness. Acquisition personnel should allow enough time for obtaining relevant cost or pricing data. As a result of the DISA contracting culture, qualified firms were not allowed to compete on contract awards and the Government was deprived of getting the contractor's best price. Senior level management and program officials concerned with schedules must be kept apprised by contracting experts of the realities of constraints posed by the need to comply with laws, regulations and good business practices. In turn, senior management must take action to prevent contracting officials from being intimidated into actions that are against their best judgment. Significant actions are needed at DISA to redress the balance between pressure for expedited contracting actions and due consideration of propriety.

Recommendations for Corrective Action

A. We recommend that the Director, Defense Information Systems Agency:

1. Compete contracts among Small Business Administration Section 8(a) firms to the fullest extent possible.

2. Restrict the use of time-and-materials contracts to only those instances for which no other contract type can be used. In those instances when time-and-materials contracts are necessary, provide adequate justification supporting the decision to use time-and-materials contracts and limit time periods for use to the minimum time necessary to develop historical data to establish other contracts.

3. Develop criteria that requires realistic contract estimates in determining whether an award meets the threshold for competition under the Section 8(a) program.

4. Require that time-and-materials contracts, when appropriately issued, do not contain overly broad or vague statements of work. Also, require that time-and-materials contracts do not include inherently governmental functions in the statement of work.

5. Prohibit Defense Information Systems Agency officials from inappropriately interfering with or pressuring contracting officers in the performance of their acquisition and award duties.

6. Establish acquisition milestones that allow acquisition personnel sufficient time to develop adequate acquisition packages based on relevant cost or pricing data.

7. Request audits from the Defense Contract Audit Agency when specific information is not available to clearly establish fairness and reasonableness of price.

8. Evaluate the placement of delivery orders against all basic ordering agreements with time-and-materials provisions and issue delivery orders only in those cases where competition has not been restricted. Each order issued should be repriced using current cost or pricing data.

Management Comments Required

We request that the Director, Defense Information Systems Agency, provide comments on the final report.

Finding B. Contract Administration

DISA contracting officers did not perform routine contract administration functions and did not provide close surveillance on T&M contracts. The lack of administration and surveillance occurred because:

- o higher level personnel intimidated contracting officers into making decisions that they did not believe were correct and were overruled when they made decisions that they believed were in the Government's best interest, and

- o DISA did not have management controls to assure separation of duties; therefore, roles and responsibilities were commingled, diminishing the contracting officer's ability to exercise independent judgment.

As a result, the Government's interests were not safeguarded and excess costs were incurred.

Administration Responsibilities

FAR Criteria. The FAR 1.602-2, "Responsibilities," states:

Contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in contractual relationships.

FAR 16.601, "Time-and-Materials Contracts - Government Surveillance," states:

A time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.

Defense Contract Management Command. The Defense Contract Management Command (DCMC) acts as the DoD primary agency for contract administration. Agencies are encouraged to use cross-servicing arrangements to eliminate overlapping of efforts and to provide consistent treatment and preclude duplicate demands on contractors.

Adequacy of Contract Administration

Contract Administration. The DISA contract administration was inadequate in that contracting officers did not perform routine administration functions and did not provide close surveillance to control T&M contracts. The use of T&M contracts became prevalent at DISA after 1991; management emphasis was directed toward the ease and quickness of use instead of close surveillance to control costs as required by FAR 16.601.

We reviewed eight contracts issued sole source to Section 8(a) small businesses to perform a variety of contract support services. Contract administration and surveillance problems existed in all of the eight contracts.

Routine Contract Administration Functions. Contracting officers issued orders that they believed were not within the scope of the contract, used contracts that the contracting officer determined were not the best vehicles to process work, issued contracts for new requirements that duplicated existing contracts, and exercised option periods without determining whether T&M orders could be converted to a more cost-effective method of contracting.

Examples of contract administration problems noted during the audit follow.

- o Contracting officers at DITCO continued to process work under two noncompetitive Section 8(a) BOAs, even though they determined that the BOAs were not in the Government's best interest based on price and risk. The contracting officers believed that historical data should have been used to develop an accurate statement of work and cost estimate, so that the remaining work could have been performed on a firm-fixed-price basis. However, because of the pressure exerted by high-level officials, contracting officers continued processing T&M orders under those BOAs.

- o A contracting officer at Fort Ritchie recognized that a new contract would duplicate a contract that was already in place for the same requirement, but allowed a new contract to be issued.

Contractor Surveillance. Contracting officers were unaware that T&M contracts should be treated differently than less risky contracts such as cost-plus-fixed-fee contracts. Management personnel did not emphasize to contracting officers that close surveillance was needed, but instead directed contracting officers to use these contracts because of their desirable features of convenience, quickness, and flexibility. Therefore, contracting officers did not closely monitor T&M contracts. Comparisons of physical completion and costs incurred were not routinely done, and steps were not taken to keep costs within established ceiling prices. As a result, costs quickly approached contract ceilings.

Finding B. Contract Administration

The following examples illustrate.

- o The most current multiple source contract at the time of this audit was awarded for \$935 million for 1 base year and six 1-year option periods. However, costs were already \$511 million with several months remaining in the second year.

- o Contract DCA100-94-D-0078, with International Development and Resources, Incorporated, was awarded for \$990,000 for 1 base year and four 1-year option periods. Delivery orders were already at \$655,000 17 days after award.

When asked about difficulty in determining which type of contract was in place, one manager stated that he did not want to "pigeonhole the contract," implying that he wanted to leave it as open-ended as possible. Our opinion is that T&M contracts were issued because of quickness or convenience. Contract files were silent about the need for close surveillance or cost control. In addition, DISA has not developed written procedures to provide guidance on surveillance techniques or the amount of surveillance required, even though T&M contracts have been widely used since 1991.

Management was more concerned with ensuring that contract vehicles were available than with contractor surveillance. For example, both Modern Technology Systems, Incorporated, and International Development and Resources, Incorporated, had current contracts with DISA (contracts DCA100-94-D-0064 and DCA100-94-D-0078, respectively). However, acquisition personnel wanted additional contracts in place because they did not believe that the existing contracts had enough funds to meet future unknown requirements. Therefore, both contractors were awarded BOAs, DCA200-94-G-0001 and DCA200-94-G-0002, for the same purpose as the existing contracts that were already in place.

Delegation of Contract Administration Functions to DCMC. DISA did not evaluate whether contract administration could have been more efficiently or effectively performed by DCMC. DISA and DCMC were performing contract administration functions for the same contractors. We furnished DCMC a listing of 10 contractors awarded contracts by DISA to see whether those same contractors had work administered by DCMC. DCMC and DISA were both performing administration functions for 6 of the 10 contractors. DISA could have avoided the costs of administering the contracts by delegating contract administration functions to DCMC. In addition, DISA could put funds to better use by allowing DCMC to administer all DISA contracts.

DCMC contract administrators have significant experience in contract administration. DCMC has a cadre of trained, experienced, and certified software professionals with the capability to provide contract administration on the DISA contracts. DCMC analyzed a sample of DISA contracts and related statements of work and determined that the DISA contracts were no more complex than other contracts that DCMC has successfully administered.

Finding B. Contract Administration

Not to Exceed Values. Contracting officers justified the use of T&M contracts because of cost-effectiveness. However, contracting officers had no basis to measure cost-effectiveness and contracting files did not document how cost-effectiveness was determined. In addition, management did not attempt to control costs on T&M contracts. Contracting officers routinely increased not-to-exceed values and exercised option periods. Contracts were not cost-effective, even though contracting officers used cost-effectiveness as the basis for justifying the T&M contract type. For example, the not-to-exceed value for DCA100-94-D-0078, awarded to International Development and Resources, Incorporated, increased to more than \$1.8 million from its original contracted value of \$990,000 within 3 months after award. In addition, delivery order not-to-exceed values for five Section 8(a) contracts were increased.

Figure 3 shows the magnitude of increase above not-to-exceed values for five Section 8(a) T&M contracts.

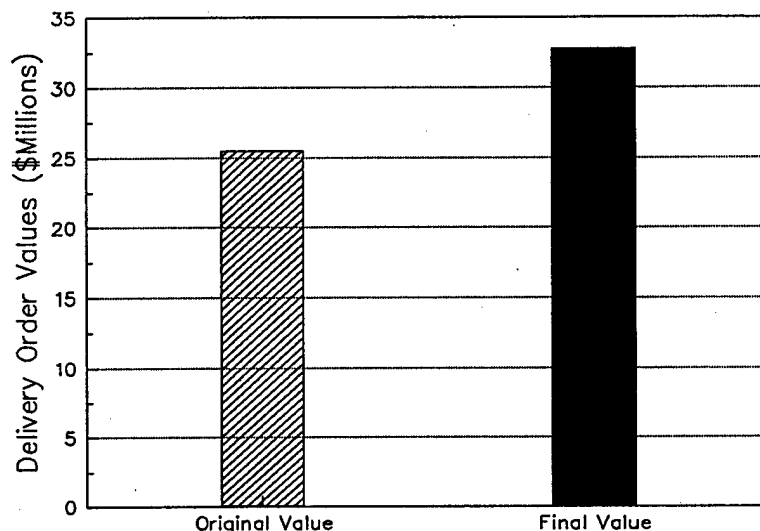


Figure 3. Delivery Order Not-To-Exceed Values

Extended Contractual Time Periods. Contract option periods were routinely exercised on T&M contracts. As a result, the Government was obligated for extended periods of time on higher risk type contracts. T&M contracts were awarded with a base year and several option periods. The contracting officer exercised either some or all of the option periods. The contracting officer did not attempt to use cost and technical data on the contracts after exercising the base year or any option periods to establish less risky contracts for the Government.

Pressures on Contracting Officers

Higher level officials pressured contracting officers at the DISA field offices to take actions that contracting officers believed were inappropriate. The contracting officers were especially vulnerable because senior officials could threaten to centralize contracting functions at headquarters or move the contracts to more agreeable contracting offices. Headquarters officials made clear to contracting officers at DITCO and Fort Ritchie that if things were not done in the manner desired, contracting functions could be removed from their field offices.

Fort Ritchie. One headquarters official in a memorandum dated July 20, 1994, to a contracting officer at Fort Ritchie stated:

. . . your new director and myself, your customer (by choice) are giving you a second chance to keep your shop as it is. However, I am having a very difficult time in supporting your shop by the attitudes you all have. . . . I can use a number of other contract shops. Mr.¹ is allowing you the chance to show that you are not just another bureaucratic contract shop. . . .

The official was sending a statement of work for the contracting officer to process and went on to state:

It will be the closest to personal services as I will ever ask you to process. After you review it, you come back and tell me if you can process it. If not, then I will ask you to go ahead and award the BOAs and I will request that Mr.¹ allow us to transfer it to another contract shop. . . .

Contracting officers at Fort Ritchie stated that they were directed to issue the BOAs to Modern Technology Systems, Incorporated, and International Development and Resources, Incorporated, for a work requirement when contracts already existed for the same requirement. A contracting officer also stated that she was directed by senior officials at headquarters to use a contract with a specific contractor after she informed the official that, in her judgment, another contract more closely matched the work requirements. Furthermore, she was directed to include work on a contract, even though she told officials that the work did not qualify under the contract's standard industrial classification code.

DITCO Contracting Office. DITCO contracting officers were under the same pressures as the Fort Ritchie contracting officers. During one of our visits to the DITCO field office at Scott Air Force Base, DISA headquarters sent a team out to evaluate the functions and operations of the contracting office. Contracting officials at DITCO were told that the evaluation involved the feasibility of moving contracting operations to headquarters; however,

¹Privacy Act information omitted.

contracting officials at DITCO believed that the evaluation was directly related to the lack of cooperation of contracting officials on issuing orders against two BOAs that DITCO contracting officials had determined were not cost-effective.

Contracting officers issued letters to customers on the Modern Technologies Corporation BOA (DCA200-94-G-0003) and SETA Corporation BOA (DCA200-91-G-0001) to indicate that the contracting office would no longer process orders against these BOAs, because the contracting office believed that the orders were not cost-effective and that the orders restricted competition. However, the contracting officer's judgment was overruled by DISA headquarters, and contracting officers were instructed to continue using the BOAs. The direction was given, even though the division chief agreed with the decision to stop using the BOAs, and one of the contractors no longer qualified for small business status.

Management Controls

DISA and DITCO did not establish adequate procedures to monitor time-and-materials contracts. In addition, DISA did not separate roles and responsibilities to allow contracting officers independence to perform their duties.

Management Control Program. DISA headquarters and DITCO did not adequately implement a management control program. Scheduled reviews and assessments at DISA headquarters for contract administration were not performed in FY 1994, even though a memorandum that was forwarded to the procurement division chief reported scheduled reviews as having been conducted.

DITCO performed a quick assessment of contract management, but did not document the review in FY 1994. The assessment did not constitute a management control review. Neither DISA nor DITCO has done any reviews that specifically addressed T&M contracts. No procedures were established to instruct contracting officers on levels of surveillance or proper surveillance techniques for T&M contracts.

Separation of Duties. DISA headquarters did not separate roles and responsibilities to allow contracting officers to do their jobs properly. In addition, lines of authority were blurred and relationships were comingled, further weakening the position of the contracting officer.

Organization Independence. Although DISA headquarters personnel stated that retaining contract administration was necessary because of the complexity of the work, we believe that the contract administration also allowed the organization to exert control over all phases of the procurements. Recent events at DISA support this belief. DISA headquarters removed five BOAs from Fort Ritchie and relocated those BOAs to headquarters pending legal review. Several contracting officers at headquarters told us that they did not

Finding B. Contract Administration

want any involvement with those BOAs and that contracting personnel did not process orders at headquarters. Those BOAs have recently been transferred to DITCO.

Contract administration was retained on other contracts, even though contracting officers told us that they did not have enough time to do all of their duties. Contract functions were comingled, and because of the limited number of personnel assigned to those functions, some personnel were performing both procurement and administration functions. Personnel limitations also were used as a basis to contract out administration functions. Because of the organizational structure and personnel limitations, senior personnel were in a position to pressure both procurement and administration personnel.

Lines of Authority. DISA headquarters also allowed individuals to serve in positions of authority over contracting officers and at the same time act as advisors to the contracting officers. The same individual who was the contracting officer's representative on four contracts also pressured a contracting officer as the "customer" on another contract. In another case, the contracting officer's representative became the acting director of procurement, yet did not relinquish his contracting officer's representative duties. A GS-14 contracting officer's representative was also advising GS-12 and GS-13 contracting officers. Such relationships did not allow contracting officers the independence needed to do their jobs.

Contracted Administration. DISA headquarters also contracted for assistance in the administration of contracts. This action, besides contracting out a Government function, caused control and potential conflict of interest problems. The possibility existed that the contractor might gain access to confidential and proprietary information on other contractors that would give the contractor an advantage in future procurement actions.

DISA awarded four contracts that included delivery orders with contract administration taskings. Table 2 shows the contract numbers and values of contracts that included contract administration functions.

Table 2. Contracts That Included Contract Administration Functions

<u>Contract Number</u>	<u>Value</u>
DCA100-94-D-0064	\$1,300,000
DCA100-93-D-0005	257,616
DCA100-93-D-0138	148,000
DCA100-94-D-0078	124,541

Conclusion

The DISA administration of T&M contracts was inadequate. Administration practices and procedures were not in the best interest of the Government and contracts were not monitored properly. Contracting officers were intimidated during the administration process and a lack of management controls over administration often diminished the contracting officer's ability to exercise independent judgment. As a result, the Government's interest was not protected and excess costs were incurred.

DISA needs actions to separate the procurement and administration functions. Delegation of administrative functions to DCMC would allow the separation of those functions and ensure that administrative practices are in the best interest of the Government.

Recommendation for Corrective Action

B. We recommend that the Director, Defense Information Systems Agency:

1. Delegate contract administration functions for all contracts to the Defense Contract Management Command.

2. Evaluate the performance of all Defense Information Systems Agency officials, including contracting officers, and initiate appropriate action, if DISA determines that improper procurement actions were taken. In addition, senior management should consider appropriate action if DISA determines that procurement contracting officers or higher level officials awarded T&M contracts when other contract types more favorable to the Government should have been awarded, or if those officials were sufficiently negligent in the performance of their duties to justify appropriate action.

Management Comments Required

In a meeting with the Assistant Inspector General for Auditing on September 1, 1995, the Director, Defense Information Systems Agency, outlined a number of personnel actions that have been taken in consonance with the intent of Recommendation B.2. and indicated a written response would follow. We request that the Director, Defense Information Systems Agency, provide those written comments on the final report addressing Recommendations B.1. and B.2.

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

DISA procurement officials did not use the Center for Information Management, Systems Engineering and Technical Assistance, multiple source procurement award to achieve services at the best price. That occurred because procurement contracting officers:

- o allowed customers to direct the work to the contractors of their choice, not necessarily to the best value contractor;

- o mistakenly believed they were in compliance with the FAR because they considered the delivery orders placed against the multiple source contracts to be competitive, when in fact the acquisitions were not competitive;

- o did not thoroughly evaluate fairness and reasonableness of price;

- o did not adequately use DCAA audit support;

- o did not obtain reliable independent Government cost estimates to assist in determining price reasonableness; and

- o did not control labor pricing methodologies with prime contractor and subcontractor composite rates.

As a result, purchase orders were issued at excessive prices, contractors realized excess profits, and the use of competition was circumvented.

Multiple Source Procurements

DISA awarded two multiple source procurements consisting of 10 contracts to 9 different contractors. The first multiple source procurement, the Center for Information Management, Systems Engineering and Technical Assistance (CIM/SETA), consisted of four contracts. The second multiple source procurement, Defense Enterprise Integration Services, consisted of six contracts and is addressed in a separate report by the Inspector General, DoD. The combined ceiling price of both multiple source procurements was \$1.1 billion. Each contractor was capable of performing all tasks contained in the statements of work.

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

DISA awarded four T&M, ID/IQ contracts by way of a multiple source award for the CIM/SETA procurement. The contracts were awarded as follows:

- o DCA100-93-D-0065 awarded to Abacus Technology Corporation (Small Disadvantaged Business Set-Aside);
- o DCA100-93-D-0066 awarded to Electronic Data Systems Corporation;
- o DCA100-93-D-0067 awarded to Science Applications International Corporation; and
- o DCA100-93-D-0071 awarded to Softech Incorporated.²

The multiple source award was for technical expertise to assist the Center for Information Management in improving the DoD information management program. DISA considered the procurement to be competed at a predetermined level of effort and in May 1993, awarded four contracts, each for a base year and four 1-year option periods. The competition only established the contractors that would get minimum award contracts. The ceiling price for the CIM/SETA procurement was \$200 million. Each contractor was guaranteed a minimum of \$2.5 million. The delivery orders that followed could be made to any of the selected contractors without competition as long as total awards did not exceed the ceiling price.

Effectiveness of Multiple Source Procurement Awards

DISA did not achieve service at the best price. Although DISA did compete the initial contract awards, it did not compete delivery orders issued from those contracts and did not award delivery orders to "best value" contractors. In addition, DISA did not consider the impact of a corporate structure change on the competition.

Competition. DISA considered the multiple source procurements to be competed because contracts were awarded based on competitive proposals. However, competition for contract awards was based on approximately 15 percent of the maximum ceiling price for multiple source procurements. In addition, the competition for the CIM/SETA did not establish the amount of the contract, but merely gave the winners the potential to obtain an unknown amount of future work over the guaranteed minimum values of \$2.5 million. Once the minimum values were met, the contractors could receive any dollar amount as long as the ceiling prices were not exceeded. DISA did not compete delivery order awards; instead, customers directed contracting personnel to award delivery orders to the contractor of their choice.

²Consolidated Analysis Concepts Incorporated later became the prime contractor for contract dCA100-93-D-0071 through a novation agreement.

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

The DISA use of competition was not in compliance with the FAR because contractors were not realistically permitted to compete for all requirements. FAR 6.001(e)(1) states that competition is required for all acquisitions except:

. . . orders placed under indefinite-quantity contracts that were entered pursuant to this part when -

The contract was awarded under Subpart 6.1 or 6.2 and all responsible sources were realistically permitted to compete for the requirements contained in the order.

The DISA Method of Awarding Delivery Orders. DISA allowed customers to select the contractor of their choice for a particular tasking under its multiple award procurement. For example, when customers for the CIM/SETA submitted a statement of work, initiating the delivery order process, the contract number and contractor were already identified by the customer as being the awardee for the task, irregardless of the contractor's technical and cost ranking.

DISA Legal Review. The Deputy General Council at DISA recognized that delivery orders should be competed. His comment in the CIM/SETA legal review stated:

I still think that tasks should be competed among offerors. Is there a study showing that B&P [bid and proposal] costs would exceed the cost savings gained in a competition? Since no offeror protested the RFP [request for proposal] of the competitive range decisions, the issue of competing tasks is not an immediate protest issue as far as I can see. But it does present potential for disputes in the future. Clause G.5 provides that the contracting officer's decision to withdraw a task is not a dispute under the Contract Disputes Act. The process for awarding tasks and choosing contractors for tasks is, however, open to dispute if contractors perceive DISA awards tasks in other than a fair and even-handed manner. It is also open to downstream protests from companies who did not receive award claiming that they should be in on the awarding of the task. The APR does not reflect the noncompetitive task strategy.

Competition Requirements for Multiple Source Procurements. DISA should consider the effects of Federal Acquisition Streamlining Act of 1994 on multiple source procurements. The act requires that delivery orders valued at greater than \$2,500 issued through multiple awards be competed. Section 2304c paragraph (b) states:

When multiple task or delivery order contracts are awarded under [this Act], all contractors awarded such contracts shall be provided a fair opportunity to be considered, pursuant to procedures set forth in the contracts, for each task or delivery order in excess of \$2,500 that is to be issued under any of the contracts

The failure to compete delivery orders was especially problematic because DISA was also not basing award of delivery orders on the contractor that would provide the "best value."

**Finding C. Center for Information Management, Systems Engineering and
Technical Assistance, Multiple Source Procurement Award**

Best Value. DISA did not consistently use the best value contractor based on technical or cost ratings to achieve savings. Instead, contractors with lower rankings were receiving larger portions of the award than those with higher overall rankings. Before both multiple awards, DISA rated each contractor on technical ability and on cost to determine which contractors were in the competitive range. After the rating, the contractors considered in the competitive range were rated again on the same factors based on their best and final offers. As discussed previously, customers were often designating prime contractors or subcontractors for work, even though the customers had no knowledge of which contractor provided the best value.

The table below shows technical and cost rankings and actual percentages of dollars awarded (as of May 31, 1995) to the contractors rated high technically.

**Table 3. Contractors With Lower Technical and Cost Rankings Were
Being Awarded Higher Amounts
(as of May 31, 1995)**

<u>Contractor</u>	<u>Technical Ranking</u>	<u>Cost Ranking</u>	<u>Dollars Awarded</u>	<u>Percent of Dollars Awarded</u>	<u>Tasks Awarded</u>
EDS	1	2	\$10,894,847	20.4	40
Softech/CACI	2	3	21,886,000	41.0	62
SAIC	3	1	14,674,655	27.5	56
CACI	Consolidated Analysis Concepts, Incorporated				
EDS	Electronic Data Systems Corporation				
SAIC	Science Applications International Corporation				
Softech	Softech, Incorporated				

The advantages of a multiple source award as explained in the CIM/SETA post-negotiation memorandum are as follows:

Multiple awards offer insurance against poor performance by one contractor. Should a contractor be unwilling or unable to perform satisfactorily, the work could easily be given to other contractors. Secondly, history shows that organizations like CIM [Center for Information Management] have 'surge' requirements which are almost impossible for one contractor to meet. Having several firms under contract allows these sudden large requirements to be met.

Each contractor is capable of performing any task that falls within the scope of the statements of work. A prudent business person would expect that DISA would award orders to the best value contractor until the contractor showed poor performance or until surge requirements exceeded the contractor's capabilities. However, Electronic Data Systems Corporation, the best value contractor, was receiving fewer orders than either of the other two "competitors," even though DISA had not documented instances of poor performance. We reviewed labor costs incurred as of January 1995 for 51 delivery orders awarded to Softech, Incorporated/Consolidated Analysis

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

Concepts, Incorporated. The excess costs were calculated for each delivery order by comparing the labor costs incurred by the awardee with the costs of what the other contractors (best value) costs would have been if they were awarded the delivery order. As a result, DISA may have lowered labor costs by \$2.6 million just for the 51 orders had they made an attempt to award to the best value contractor. The lack of attempt to award to the best value contractor also occurred on a more current multiple award procurement for which the disparity of awards to cost ranking of the competition is even more pronounced.

We believe that the delivery orders should have been competitively awarded. However, at a minimum, DISA should have used the best value contractor or documented the reasons for using the other contractors. See Appendix E for a list of excess labor costs incurred for each of the 51 delivery orders.

Corporate Structure. Softech, Incorporated, was awarded contract DCA100-93-D-0071 in May 1993 as part of the CIM/SETA competitive procurement. One of its subcontractors was Consolidated Analysis Concepts, Incorporated. In June 1994, DISA issued a modification to the contract that concurred with a novation agreement executed by the Defense Logistics Agency in December 1993, in which Consolidated Analysis Concepts, Incorporated, replaced Softech, Incorporated, as the prime contractor. In our opinion, the replacement circumvented the competitive process by replacing one of the successful awardees with a contractor that did not go through any of the competitive selection procedures. In addition, Consolidated Analysis Concepts, Incorporated, would have a different corporate cost or pricing structure that would impact in an unknown manner and would certainly be different than the conditions under which the competitive selections were made.

Furthermore, competitive proposals were made based on teaming arrangements involving the competitive prime contractor and a selected group of subcontractors. Acquisition personnel evaluated the competition based on the teaming price structure. However, contracting personnel did not adequately control the mix of subcontractors after award. New subcontractors were added and original teaming partners were dropped without evaluation of the competitive impact of such changes. The substitution of a prime contractor and switching of subcontractors destroy the foundation upon which the original competition was based and should not be allowed.

Evaluation of Pricing

DISA contracting officers did not obtain the best price because they did not:

- o thoroughly evaluate fairness and reasonableness of price,
- o request formal audits of cost,
- o obtain reliable independent Government cost estimates, and

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

o control labor pricing methodologies with prime contractor and subcontractor composite labor rates.

Composite labor rates are the agreed-upon labor rates used in the contracts and are derived by combining the labor rates of the prime contractor and subcontractors for a labor category into one overall rate.

Fairness and Reasonableness. Fairness and reasonableness determinations were extremely important in the multiple award contracts described because price was not the primary selection criterion and because all awards above the guaranteed minimum could go to any successful bidder. As a result, on a multiple award, the highest priced contractor could theoretically receive hundreds of millions of dollars in awards, while the lowest price contractor might just receive the minimum award. DISA procurement contracting officers did not make adequate determinations of price fairness and reasonableness and did not effectively use pricing techniques available to assist their evaluations.

Specifically, contracting personnel did not determine the impact of different award levels of competitive pricing or evaluate the effect of team pricing on composite labor rates. Contracting officers also did not effectively use field pricing support from the DCAA or independent Government cost estimates.

Acquisition personnel only used one level of effort to establish the competitive range, even though any contractor could be awarded all orders above the minimum guarantee. The level of effort represents a predetermined amount of labor hours that each contractor used to establish a proposed price. Specifically, the contractors for multiple source awards bid on approximately 15 percent of the ceiling price. Through May 1995, one contractor had already received awards that surpassed its bid on a 7-year contract, even though the contract was only in its second year. A more thorough evaluation of pricing should have been done to determine the competitiveness of contractors' pricing at several levels of award. DISA made no effort to have the contractors bid at different levels within the maximum award amount. Had DISA done so, other contractors may have had lower prices and adequate technical ratings at higher levels of performance. Competing at only one level may have forced the Government to pay higher costs and may have unfairly removed contractors from consideration.

Field Pricing Support. Contracting personnel did not request formal audits of costs from DCAA or involve DCAA in the award process, even though the amount of potential awards would have the likely effect of reducing competitive contractors' overhead and general and administrative rates. DCAA auditors were not invited to any of the cost and price evaluation sessions held by DISA contracting personnel. In addition, when contracting personnel asked DCAA to provide audit support, the requests were often incomplete and failed to make DCAA aware of the purpose or potential impact of the requested information.

DISA also did not utilize DCAA effectively for audit purposes, and when DCAA was used, DISA did not provide DCAA a full set of facts to give complete information to the contracting officer. DISA requested a labor rate check of only 6 of 42 labor categories for the 4 CIM/SETA contracts because it

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

believed that those rates were going to be used most often. As a result, DCAA audited 24 total labor categories for the four contractors for the CIM/SETA contracts.

Of the 24 labor categories:

- o 14 categories were not ranked in the top 6 in cumulative dollars through December 1994 as predicted by DISA and

- o 4 were not used by the Government as of December 1994.

DISA, in its request to DCAA, did not inform DCAA of the range of award to the contractors. DCAA did not know, for example, that a CIM/SETA contractor could be awarded the balance of the \$200 million after all contractors were awarded their minimum for the CIM/SETA contracts. Had DCAA been aware of those facts, it likely would have cautioned the contracting officer that business volume would significantly affect labor and burden rates. It is also possible that DCAA would have qualified an opinion of the acceptability of proposed costs.

Independent Government Cost Estimate. A Government cost estimate can be compared with the contractor's bid or quote to assist in determining price reasonableness. To be reliable, the method in which the Government estimate was prepared and the tools used to make the estimate must be known. The independent Government cost estimates for the CIM/SETA procurement and delivery orders reviewed were not reliable. The estimate for the entire procurement consisted of the number of labor hours and materials projected to be used for each of 5 years. DISA provided no explanation of how the hours were determined. The estimates for the delivery orders were prepared in much the same manner. The estimates included only the predicted labor categories, the number of hours, and type of materials. Again, DISA provided no explanation of how the data were derived.

Pricing Methodologies. The teaming structures (the combination of the prime contractor and its subcontractors) allowed contractors to achieve profits that were not part of the original pricing structures and intent. As a result, DISA did not comply with the intent of the FAR. FAR 15.8, "Price Negotiation," states:

The contracting officer's objective is to negotiate a contract of a type and with a price providing the contractor the greatest incentive for efficient and economical performance. The negotiation of a contract type and a price are related and should be considered together with the issues of risk and uncertainty to the contractor and the Government.

In the CIM/SETA procurement, the contractors' 42 labor rates were based on composite rates of the teaming structures proposed by the prime contractors. DISA accepted composite labor rates that were calculated using the weighted average of the prime contractor's labor rate and the subcontractors' labor rates based on a percentage of the proposed workload. DISA accepted the composite rates and the proposed workload without any controls or diligent evaluation to protect the Government against shifting of the workload percentage.

**Finding C. Center for Information Management, Systems Engineering and
Technical Assistance, Multiple Source Procurement Award**

The following table illustrates how the composite labor rate for one of the multiple source award contract's labor categories, "Senior Implementation Support Specialist," was derived. The table also shows that the labor rates for subcontractor "A" is much higher than the rate for subcontractor "B."

Table 4. Composite Rate for the Senior Implementation Support Specialist Led to Excess Profits for Subcontractor A

	<u>Prime Contractor</u>	<u>Subcontractors</u>			<u>Composite Rate</u>
		<u>A</u>	<u>B</u>	<u>C</u>	
Labor Rate	\$87.66	\$121.54	\$72.07	\$102.57	
Proposed Workload	10%	70%	15%	5%	
Composite Rate	\$ 8.77	\$ 85.07	\$10.81	\$ 5.13	\$109.78

The following example clearly illustrates how easily the proposed rate structure allows manipulation for the contractor's benefit. The rate listed in the contract for the labor category above was \$109.78 for the first year of the contract. The primary reason for the \$110 rate was because of the high hourly rate and the percentage of hours that subcontractor "A" was expected to work. Through March 31, 1995, 11,898 hours were worked for the labor category. Subcontractor "A" worked 5 percent of the hours and the prime contractor worked 86 percent of the hours. As a result, the prime contractor realized an additional profit of \$248,000 because of the difference in the labor rates. Through March 1995, the prime contractor had realized a profit of approximately \$1 million because the proposed composite rates were higher than the ratio of mixed labor rates actually used. Appendix F summarizes the profit realized for each labor category for one contract.

Conclusion

The multiple source awards were not benefiting the Government. In contrast, the Government was paying excessive prices, was not getting the best value contractor to perform the work, and was, in effect, noncompetitively distributing work to the contractors based on the choice of DISA or the customer. The Government would benefit by canceling the CIM/SETA multiple source awards and by issuing new, competitive contracts for the requirements remaining. Competing orders would resolve many of the problems, including lack of audit support and incomplete Government cost estimates.

Finding C. Center for Information Management, Systems Engineering and Technical Assistance, Multiple Source Procurement Award

Recommendations for Corrective Action

C. We recommend that the Director, Defense Information Systems Agency:

1. Terminate the Center for Information Management, Systems Engineering and Technical Assistance contract procurement as soon as a replacement contract can be awarded.

2. In the interim, use the best value contractor when setting delivery orders on the current Center for Information Management, Systems Engineering and Technical Assistance contract.

3. Structure future multiple procurement awards so that delivery orders are competed, contractors cannot be replaced by contractors that were not part of the competition, and contractors cannot manipulate the use of subcontractors to realize windfall profits.

Management Comments Required

We request that the Director, Defense Information Systems Agency, provide comments on the final report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope of the Audit

DISA awarded and administered 18 contracts that contained ID/IQ and T&M provisions from fiscal years 1991 through 1994. The 18 contracts consisted of 10 multiple source procurement awards, valued at \$1.1 billion, and 8 noncompetitive sole-source awards, valued at \$50.2 million.

Contracts Reviewed. We reviewed documentation from FYs 1991 through 1995 related to 12 contracts, valued at \$250 million, identified by DISA headquarters. Six contracts for the Defense Enterprise Integration Services, with a ceiling price of \$935 million, are covered under a separate audit by the Inspector General, DoD. Specifically, we examined the statements of work, contract plans, negotiation memorandums, determinations and findings, independent Government cost estimates, and miscellaneous correspondence. We also interviewed contracting personnel at DISA, DITCO, DCMC, and officials at DCAA. Appendix D provides a summary of the contracts reviewed during the audit.

Audit Period, Standards, and Locations. We performed this economy and efficiency audit from November 1994 through June 1995 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included tests of management controls considered necessary. We did not use computer-processed data or statistical sampling procedures for this audit. Appendix H lists the organizations visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed management control procedures regarding the award and administration of T&M contracts at DISA. We also reviewed management's self-evaluation of those management controls.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Directive 5010.38 relating to the acquisition process and contract administration of T&M contracts. DISA contracting personnel did not adhere to the basic contracting regulations in planning, awarding, and administering T&M contracts.

Recommendations A.3., A.7., A.8., B.1., and B.2., if implemented, will help to correct the problem. The amount of potential monetary benefits associated with the material weaknesses could not be quantified because future requirements are unknown. See Appendix G for all benefits associated with the audit. A copy of the report will be provided to the senior official in charge of management controls for DISA.

Adequacy of DISA Self-Evaluation. DISA did not implement DoD Directive 5010.38. The DISA acting chief, procurement management division, certified on the statement of assurance that management control reviews had been performed for contract award and contract administration in 1994. However, DISA did not perform the reviews. DISA personnel did not identify any of the material weaknesses identified by the audit. DISA believed that the assessable unit, contract management, would encompass T&M contracts.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the Office of the Inspector General, DoD, has issued three reports that specifically discuss the award and administration of T&M contracts.

Inspector General, DoD, Report No. 94-199, "Acquisition of Inventory Services for the Defense Information Services Organization," September 30, 1994. The subject report states that the Defense Commercial Communications Office contracting officer did not prepare justifications to support the use of \$2.4 million in T&M pricing actions, establish not-to-exceed prices, or monitor the contractor's performance on delivery order DCA200-91-F-5610. Recommendations were made on delivery order DLA200-91-F-5610 for contracting officers to provide written justification for using T&M contractual actions, establish clear not-to-exceed amounts, determine the reasonableness and allowability of precontract costs and adjust as needed, and request that the DCAA review supporting documentation to determine the extent to which the contractor used labor categories other than those proposed or invoiced for inventory services under the subject delivery order. DISA concurred with the recommendations.

Inspector General, DoD, Report No. 93-023, "Time-And-Materials Billings on Air Force Contract F33600-86-D-0295," November 13, 1992. The subject report states that work was performed that was outside the scope of the contract, the contract was improperly awarded and managed, and Air Force contracting officers improperly used Operation and Maintenance funds. Recommendations were directed to the Commander, Air Force Materiel Command, to initiate disciplinary action against Air Force officials and contracting officers responsible for the approval, award, and administration of contract F33600-86-D-0295. Also, the language in the Air Force Federal Acquisition Regulation Supplement should be revised to align with the FAR. The Air Force deferred consideration of disciplinary action until the impact could be assessed.

Inspector General, DoD, Report No. 91-010, "Administration of Time-And-Materials Contracts at the U.S. Army Troop Support Command," November 7, 1990. The subject report states that a contracting officer for the U.S. Army Troop Support Command improperly awarded T&M contracts without obtaining adequate competition or performing adequate price analyses and without ensuring the reasonableness of costs incurred. Recommendations were made to terminate the appointment of the contracting officer assigned to the T&M contracts and assign the contracts to a new contracting officer. Recommendations were also made to competitively award a separate contract for future personnel analysis requirement criteria, assign a contracting officer's representative, request DCAA to track and maintain surveillance of the contractor's performance and costs on the T&M contracts, discontinue acquiring nonexpendable equipment under T&M contracts, and initiate action to recover questioned costs. Management concurred with the recommendations.

Appendix C. Patterns of Contract Award and Administration Problems

Contract Award and Administration Problems	Section 8(a) Sole Source					Multiaward CIM/SETA
	MTS ¹	MTS ²	IDR ³	Advanced ⁴	TRESP ⁵ MTC ⁶ SETA ⁷	
Finding A						
Contract planned as fixed-price, awarded as another	X	X	X	X	X	
Setting contract values below competitive threshold	X		X	X		
Nominal minimum values			X	X		X
Duplicating other contract requirements	X	X	X	X		
Broad or vague statement of work	X	X	X	X	X	X
Inherently Governmental functions	X	X		X		
Lack of planning or short lead time	X	X		X		
Inadequate cost or pricing data	X	X	X	X	X	X
Inadequate price negotiation memorandum	X	X	X	X	X	X
Inadequate use of DCAA audit results	X	X	X	X	X	X
Pressure from higher officials ⁸		X			X	
No support for independent Government cost estimate	X	X	X	X	X	X
Contractor defining customer requirement					X	
Contractor developing statement of work					X	
8(a) sole-source used for quick processing time	X	X	X	X		
Inadequacy of fairness and reasonableness	X	X	X	X	X	X
Finding B						
No increase in surveillance	X	X	X	X	X	X
Changing not-to-exceed	X	X	X	X	X	X
Increasing period of performance	X		X	X	X	X
Finding C						
Improper use of competition						X
Best value contractor not used						X

¹Modern Technology Systems, Incorporated, Contract DCA100-94-D-0064.

²Modern Technology Systems, Incorporated, Contract DCA100-93-D-0138.

³International Development and Resources, Incorporated.

⁴Advanced, Incorporated.

⁵TRESP Associates, Incorporated.

⁶Modern Technologies Corporation.

⁷SETA Corporation.

⁸Pressure from higher officials also occurred in contracts that were not time-and-materials contracts.

Appendix D. Summary of Contracts Reviewed

Contract Number	Contractor	Award Type	Minimum Amount Guaranteed	Contract Ceiling Price
DCA200-91-G-0001	SETA Corporation	BOA Section (8)a Sole Source	None	None
DCA200-92-D-0055	Howard University	Sole Source	\$ 2,400,000	\$ 7,000,000
DCA100-93-D-0001	Advance, Incorporated	Section (8)a Sole Source	2,800,000	35,000,000
DCA100-93-D-0005	TRESP Associates, Incorporated	Section (8)a Sole Source	269,500	2,695,000
DCA100-93-D-0065	Abacus Technology Corporation	Multiple Source (CIM/SETA)	2,500,000	200,000,000*
DCA100-93-D-0066	Electronic Data Systems	Multiple Source (CIM/SETA)	2,500,000	*
DCA100-93-D-0067	Science Applications International Corporation	Multiple Source (CIM/SETA)	2,500,000	*
DCA100-93-D-0071	Softech/Consolidated Analysis Concepts Incorporated	Multiple Source (CIM/SETA)	2,500,000	*
DCA100-93-D-0138	Modern Technology Systems, Inc.	Section 8(a) Sole Source	212,438	999,078
DCA200-94-G-0003	Modern Technologies Corporation	BOA Section (8)a Sole Source	None	None
DCA100-94-D-0064	Modern Technology Systems, Inc.	Section (8)a Sole Source	493,000	2,493,000
DCA100-94-D-0078	International Development and Resources, Incorporated	Section (8)a Sole Source	50,000	1,980,000
Total			\$16,224,938	\$250,167,078

*Each of these contractors can receive any amount above the combined stated minimum amounts guaranteed as long as the ceiling price is not exceeded.

Appendix E. Excess Labor Costs Incurred on Contract DCA100-93-D-0071

<u>Delivery Order Number</u>	<u>Labor Costs Incurred by Softech/CACI*</u>	<u>Costs Exceeding Best Value Contractor</u>
1	\$ 262,193	\$ 47,594
2	95,047	49,732
3	758,846	64,848
4	57,217	9,519
5	173,221	31,295
6	226,792	39,921
7	121,052	18,941
8	762,692	326,308
9	252,998	31,887
10	58,331	11,093
11	40,199	0
12	16,585	1,752
13	292,353	71,398
14	198,764	28,300
15	173,801	21,998
16	314,213	31,974
17	68,041	10,743
18	90,126	21,312
19	1,770,861	699,325
20	328,399	47,922
21	174,902	66,252
22	144,803	38,899
23	424,874	183,016
24	91,318	22,544
25	121,560	41,365
26	183,392	42,267
27	171,015	21,899
28	39,570	14,567
29	120,273	36,515
30	38,622	4,963
31	141,730	68,439
32	69,641	37,154
33	18,589	2,348

*Softech/CACI - Softech, Incorporated/ Consolidated Analysis Concepts, Incorporated

Appendix E. Excess Labor Costs Incurred on Contract DCA100-93-D-0071

<u>Delivery Order Number</u>	<u>Labor Costs Incurred by Softech/CACI*</u>	<u>Costs Exceeding Best Value Contractor</u>
34	\$ 472,032	\$ 147,700
35	89,936	13,283
36	123,644	31,154
37	93,763	13,879
38	89,140	8,501
39	64,647	3,417
40	49,584	10,593
41	133,476	17,538
42	44,408	17,702
43	78,944	20,592
44	40,227	3,341
45	207,610	37,539
46	74,820	6,061
47	510,453	83,033
48	140,486	33,089
49	95,174	16,817
50	29,138	10,322
51	<u>12,036</u>	<u>1,600</u>
Total	\$10,151,538	\$2,622,251

*Softech/CACI - Softech, Incorporated/ Consolidated Analysis Concepts, Incorporated

Appendix F. Additional Profit Realized for One Multiple Source Contract

<u>Labor Category</u>	<u>Additional Profit (Loss) Realized by Prime Contractor</u>
Project Manager	\$262,632
Senior Computer Systems Analyst	18,037
Computer Systems Analyst	115,330
Junior Computer Systems Analyst	60,755
Senior Functional Analyst	(2,945)
Senior Implementation Support Specialist	248,644
Senior Systems Engineer	(357)
Senior Business Engineer	34,253
Junior Business Engineer	(293)
Senior Project Control Specialist	45,208
Administrative Specialist	(28,493)
Senior Application Programmer	208,531
Application Programmer	24,907
Quality Assurance Analyst	314
Implementation Support Specialist	(12,127)
Data Base Management Specialist	12,443
Senior Software Engineer	2,314
Training Specialist	(1,232)
Operations Manager	10,927
Junior Project Control Specialist	595
Editor	(823)
Total	\$998,620

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.1.	Economy and Efficiency. Increases cost-effectiveness and reduces the potential for favoritism and conflict of interest.	Undeterminable.*
A.2.	Economy and Efficiency. Reduces Government contracting costs through use of more favorable contract types.	Undeterminable.*
A.3.	Management Controls. Increases number of contract competed, giving the Government more favorable pricing.	Undeterminable.*
A.4.	Economy and Efficiency. Defines contract requirements and excludes inherently governmental functions.	Undeterminable.*
A.5.	Management Controls. Eliminates undue influence being exerted on contracting officers.	Nonmonetary.
A.6.	Economy and Efficiency. Eliminates the need for sole-source awards because of lack of advance planning.	Undeterminable.*
A.7.	Management Controls. Improves controls over cost or pricing practices. Prevents removal of DCAA from contract award process.	Nonmonetary.

*Amount of benefits will be determined by future contracting decisions.

Appendix G. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.8.	Economy and Efficiency. Increases the use of more favorable contracting mechanisms to satisfy requirements.	Undeterminable.*
B.1.	Economy and Efficiency and Management Controls. Improves contract administration functions and eliminates duplication of administration costs.	Undeterminable.*
B.2.	Management Controls. Improves controls over the procurement process, and, reduces the potential for favoritism and conflict of interest.	Undeterminable.*
C.1.	Economy and Efficiency. Provides for a replacement contract with more favorable pricing.	Undeterminable.*
C.2.	Economy and Efficiency. Ensures that the Government will get the best price on new delivery orders.	Undeterminable.*
C.3.	Economy and Efficiency. Increases competition, giving the Government more favorable pricing.	Undeterminable.*

*Amount of benefits will be determined by future contracting decisions.

Appendix H. Organizations Visited or Contacted

Defense Organizations

Defense Contract Management Command, Alexandria, VA

Defense Contract Audit Agency, Alexandria, VA

Headquarters, Defense Information Systems Agency, Arlington, VA

Fort Ritchie Branch, Procurement Division, Fort Ritchie, MD

Defense Information Technology Contracting Office, Scott Air Force Base, IL

Appendix I. Report Distribution

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Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Information Systems Agency
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Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
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